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Fitch Affirms Credit Mutuel Alliance Federale at 'A+'; Outlook Stable

Fitch Ratings - Paris - 16 Oct 2024: Fitch Ratings has affirmed Credit Mutuel Alliance Federale's (CM Alliance Federale) Long-Term Issuer Default Rating (IDR) at 'A+' and Viability Rating (VR) at 'a+'. The Outlook on the Long-Term IDR is Stable.

The rating actions follow Fitch's recent revision to Negative of the Outlook on France (see Fitch Revises France's Outlook to Negative; Affirms at 'AA-') and the subsequent negative outlook assigned to the operating environment (OE) for French banks. The latter creates risks for Groupe Credit Mutuel's (Groupe CM) asset quality and profitability, which we view as less resilient to a downturn than some similarly rated peers.

However, we believe the group has sufficient rating headroom to withstand a one-notch downgrade of the sovereign and the OE score due to its very strong capitalisation, solid bancassurance business profile and conservative risk profile.

A full list of rating actions is below.

Key Rating Drivers

Decentralised Cooperative Banking Group: Fitch rates CM Alliance Federale as a core part of

Groupe CM, which comprises nearly 2,000 local banks and 18 regional federations grouped into four main sub-groups. Among these, CM Alliance Federale (about 80% of group assets) and CM Arkea (over 15%) are the largest.

We believe the existing solidarity mechanism binding all affiliated CM entities is cohesive enough to substantially equalise their default risk. This is supported by a legally established and effective support mechanism, as the central body (Confederation Nationale du Credit Mutuel; CNCM) can access the group's resources to support its affiliated members. CM Arkea's recent decision to abandon its independence project has strengthened the group's cohesion.

Groupe CM publishes consolidated audited accounts, is supervised as a group and assigned consolidated resolution debt requirements, which further supports our assessment. There is a common risk framework and overarching risk supervision from the central body, which can prevent affiliated banks from taking on excessive risks. That said, regional groups run independent risk functions and strategies.

Business Profile, Capital Drive Ratings: CM Alliance Federale's ratings primarily reflect our assessment of Groupe CM's stable and profitable retail-and-commercial banking business model. The group leverages on strong franchises in French bancassurance and in consumer finance, and its main autonomous regional sub-groups continue to diversify into insurance, wealth and asset management and corporate banking.

The ratings also factor in sound, but deteriorating, asset quality, a low risk appetite and very strong capitalisation compared with most European peers. Stable funding and conservative liquidity management support the ratings.

Leading Bancassurer in France: Groupe CM has the third-largest retail- and commercial-banking franchise in France and has well-established market positions in life and non-life insurance, and in consumer finance. The group generates most of its revenue domestically, but has notable diversification through CM Alliance Federale in Germany, where it is primarily active in consumer finance, leasing and factoring, and is rolling out insurance activities, and, to a lesser extent, in Belgium.

Groupe CM's main regional groups have well-articulated strategies, and follow conservative and credible long-term goals where they prioritise sustainable organic growth and strong capitalisation

Conservative Risk Profile: Groupe CM's cooperative status supports a low risk appetite and conservative underwriting standards in key lending products across the group. Regional sub-groups have limited tolerance for traded market risks, compared with larger French peers, which benefits their risk profile.

Similar to other French banks, Groupe CM has high exposure to structural interest rate risks due to the excess of long-dated fixed-rate assets over liabilities, but these risks are managed conservatively by the main regional groups. The group's net interest income in retail banking was more resilient than most of its French peers', in part due to a more conservative interest rate risk management.

Sound but Deteriorating Asset Quality: Groupe CM's 2.6% impaired loans ratio at end-2023 remained higher than that of similarly rated European peers. However, this is mitigated by the group's satisfactory coverage by loan loss allowances and lower exposure to vulnerable corporate sectors and borrowers.

The economic slowdown and higher-rate environment will continue to moderately weaken the group's asset quality, as seen in 1H24 when impaired loans increased slightly more than at other French peers. We forecast the impaired loans ratio to increase slightly towards 3% by end-2026. Groupe CM's loan impairment charges (LICs) should remain at 25bp-30bp of gross loans over 2024-2026, which is average relative to European banks.

Profitability Lags Peers, Good Efficiency: Groupe CM has a sound and consistent profitability record, which benefits from the group's diversification. But its operating profit/risk-weighted assets (RWAs) will only recover to 2% in 2025, due to the slow recovery in interest margins in France, reduced private-equity results, rising LICs and sustained underlying cost inflation. Despite being more decentralised than French peers, Groupe CM's main regional groups have a sound cost efficiency, in particular at CM Alliance Federale (57% in 1H24).

Very Strong Capitalisation: Groupe CM's very strong capitalisation underpins the ratings and compares favourably with most French and European banks'. This is because the main regional groups adopt prudent capital planning and have limited pay-outs to cooperative owners.

The group's end-2023 common equity Tier 1 (CET1) ratio of 19.2% provided an ample buffer above regulatory requirements. We project the CET1 ratio to remain above 18% in 2024 and to gradually rise towards 20% in the medium term. Its 7.3% leverage ratio at end-2023 was well above the peer average and supported our assessment.

Stable Funding, Conservative Liquidity: Groupe CM benefits from a large and stable deposit base, originating mainly from its local retail banking networks in France, although it structurally has a slightly higher loans/deposits ratio than that of large French peers, at around 110% at end-2023.

Liquidity is managed conservatively by the main regional groups, which hold large buffers of liquid assets. The group's sound buffer of cash, central-bank placements and high-quality liquid assets (about 16% of total assets excluding insurance at end-2023), comfortably covers short-term funding and long-term debt falling due in the next 12 months.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/ Downgrade

CM Alliance Federale retains sufficient rating headroom to potentially withstand a one-notch downgrade of the French sovereign to 'A+' or of the OE score for French banks to 'a+' from 'aa-'.

However, its ratings could come under pressure if the OE deteriorated more significantly than we expect, for instance due to a larger than anticipated effect of a more restrictive fiscal policy on the economic environment or structurally higher risks from the already high private-sector indebtedness. For this to be rating negative, it would have to result in Fitch forecasting Groupe CM's impaired loans ratio increasing materially above 3% without a clear path to reduction, and sustained deterioration in operating profit to below 1.5% of RWAs, while the CET1 ratio would fall towards 17%-18% without taking sufficient remedial actions.

CM Alliance Federale's ratings would also be sensitive to a downgrade of the French sovereign by more than one notch, as the group's ratings would be capped at the level of the sovereign, all else equal.

Although not expected, a material increase in risk appetite, for instance leading to outsized and uncontrolled expansion in volatile businesses or geographies and reduced capital targets, could also put pressure on CM Alliance Federale's ratings.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade is unlikely given the negative outlooks on the OE score and the French sovereign. Over the medium term, and with a stabilisation of the OE at the current level, the ratings could be upgraded if Groupe CM strengthens its franchise, as well as its geographic and business diversification, improves its operating profit/RWAs to levels consistently above 2.5%, while maintaining a conservative risk appetite and very strong capitalisation. A sustained improvement in the impaired loans ratio to 1% or lower would also be rating positive.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

CM Alliance Federale's 'a+' score for funding and liquidity results in a Short-Term IDR of 'F1', which is the lower of two possible Short-Term IDRs mapping to a 'A+' Long-Term IDR.

The total minimum requirement for own funds and eligible liabilities (MREL) is set at the level of Groupe CM at 21.92% of RWAs. As Groupe CM does not have a central debt-issuance entity, each of the CM sub-groups, including CM Alliance Federale, will need to have own funds and eligible liabilities above this threshold for Groupe CM to comply with MREL.

We expect Groupe CM will continue to meet MREL without recourse to senior preferred debt. Groupe CM reported a subordinated MREL ratio (excluding senior preferred debt) of 23.2% at end-2023.

BFCM's and Credit Industriel et Commercial's (CIC) long-term deposits and senior preferred debt ratings are one notch above CM Alliance Federale's Long-Term IDR to reflect the protection that would accrue to their depositors and senior preferred creditors in a resolution from the sizeable equity and more junior debt buffers available within Groupe CM. For the same reasons, we rate BFCM's senior non-preferred long-term debt in line with its Long-Term IDR.

BFCM and CIC's 'F1+' short-term deposit and senior preferred debt ratings are the only options mapping to their 'AA-' long-term ratings. BFCM's Derivative Counterparty Rating (DCR) of 'AA-(dcr)' is in line with its equally ranking senior preferred debt and deposits.

We rate BFCM's subordinated Tier 2 debt two notches below CM Alliance Federale's VR for loss severity as we expect poor recoveries for this type of debt in a bank failure or resolution. Deeply subordinated legacy Tier 1 securities are rated four notches below CM Alliance Federale's VR to reflect the high loss severity risk of these securities (two notches from the VR), and a higher risk of non-performance (an additional two notches) relative to CM Alliance Federale's VR.

Government Support Rating

CM Alliance Federale, BFCM and CIC's Government Support Ratings (GSRs) of 'no support' reflect Fitch's view that although possible, sovereign support cannot be relied on. In our view, legislative, regulatory and policy initiatives, including the implementation of the EU's Bank Recovery and Resolution Directive, have substantially reduced the likelihood of sovereign support for EU commercial banks in general. This implies that senior creditors would probably be required to participate in losses, if necessary, instead of the bank receiving sovereign support, despite Groupe CM's systemic importance in France.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Fitch would downgrade CM Alliance Federale's Short-Term IDR in case of a combined two-notch downgrade of the Long-Term IDR and a downward revision of the funding and liquidity score. We could upgrade the Short-Term IDR either if the Long-Term IDR is upgraded to 'AA-' or if the funding and liquidity score is revised up to 'aa-', which is unlikely.

The DCRs, senior preferred debt, senior non-preferred debt and deposit ratings are sensitive to CM Alliance Federale's Long-Term IDR. They could also be downgraded if Fitch no longer expects Groupe CM to meet its MREL exclusively with senior non-preferred debt and more junior instruments.

Should the French sovereign be rated 'A+', BFCM and CIC's senior preferred debt and deposit ratings would be unaffected and be rated one notch above the sovereign. At group level, the considerable amount of CET1 capital above regulatory requirements provides a comfortable buffer to protect senior preferred debt holders in case of a severe stress on the sovereign rating or a resolution scenario, limiting the risk of default on these debts.

The ratings of the subordinated debt and deeply subordinated debt issued by BFCM are primarily sensitive to a change in CM Alliance Federale's VR.

An upgrade of CM Alliance Federale, BFCM and CIC's GSRs would be contingent on a positive change in the French sovereign's propensity to support domestic banks. While not impossible, this is highly unlikely, in Fitch's view.

SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS

Key Rating Drivers

Fitch assigns a group VR to CM Alliance Federale and its subsidiaries, BFCM and CIC, which are core banks for Groupe CM. This is because the two subsidiaries are large and highly integrated domestic banks. Their credit profiles cannot be disentangled from those of CM Alliance Federale and Groupe CM and we view their failure risk as substantially the same as the group as a whole.

Only BFCM is affiliated to Groupe CM's central body and as such it could benefit from the national-support mechanism, which by extension could also benefit CIC if BFCM is unable to provide the necessary support to CIC, because it would find itself in financial difficulties.

BFCM made up close to two-thirds of Groupe CM's consolidated assets. BFCM is the group's main issuing vehicle on financial markets and it coordinates the activities of CM Alliance Federale's subsidiaries. CIC is owned by BFCM and accounts for about 40% of group assets. It is one of the group's two retail and commercial networks in France and hosts the group's modest corporate- and investment-banking activities. BFCM and CIC are highly integrated with CM Alliance Federale in management, systems, capital and liquidity.

As a result of the above, the IDRs of BFCM and CIC are equalised with those of CM Alliance Federale.

SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

Rating Sensitivities

BFCM and CIC's ratings will move in tandem with those of CM Alliance Federale, unless Fitch ceases to view BFCM and CIC as core banks within the group, which we do not expect given their role and importance within CM Alliance Federale.

VR ADJUSTMENTS

CM Alliance Federale's implied VR Key Rating Drivers are derived from Groupe CM's consolidated accounts.

Sources of Information

The principal sources of information used in the analysis are described in the Applicable Criteria.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Credit Mutuel Alliance Federale	LT IDR	A+	Affirmed		A+
	ST IDR	F1	Affirmed		F1
	Viability	a+	Affirmed		a+
	Government Support	ns	Affirmed		ns
Banque Federative du Credit Mutuel S.A.	LT IDR	A+	Affirmed		A+
	ST IDR	F1	Affirmed		F1
	Viability	a+	Affirmed		a+
	DCR	AA-(dcr)	Affirmed		AA-(dcr)
	Government Support	ns	Affirmed		ns
• junior subordinated	LT	BBB	Affirmed		BBB
• Senior non-preferred	LT	A+	Affirmed		A+

ENTITY/DEBT	RATING			RECOVERY	PRIOR
• subordinated	LT	A-	Affirmed		A-
• long-term deposits	LT	AA-	Affirmed		AA-
• Senior preferred	LT	AA-	Affirmed		AA-
• short-term deposits	ST	F1+	Affirmed		F1+
• Senior preferred	ST	F1+	Affirmed		F1+
Credit Industriel et Commercial S.A.	LT IDR	A+	Affirmed		A+
	ST IDR	F1	Affirmed		F1
	Viability	a+	Affirmed		a+
	Government Support	ns	Affirmed		ns
• long-term deposits	LT	AA-	Affirmed		AA-

ENTITY/DEBT	RATING			RECOVERY	PRIOR
• Senior preferred	LT	AA-	Affirmed		AA-
• short-term deposits	ST	F1+	Affirmed		F1+
• Senior preferred	ST	F1+	Affirmed		F1+

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Bank Rating Criteria (pub.15 Mar 2024) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

Credit Industriel et Commercial S.A.	EU Issued, UK Endorsed
Credit Mutuel Alliance Federale	EU Issued, UK Endorsed

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